

INVESTMENT SECTION



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FOR THE FISCAL YEAR ENDED JUNE 30, 2003



REPORT ON INVESTMENT ACTIVITY

MERCER

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October 9, 2003

Board of Trustees
State of Indiana Public Employees' Retirement Fund
143 West Market Street
Indianapolis, Indiana 46204

Dear Trustees:

Mercer Investment Consulting is pleased to present the State of Indiana Consolidated Retirement Investment Fund (CRIF) results for the fiscal year ended June 30, 2003.

As of June 30, 2003, the CRIF's market value totaled \$9.7 billion, a \$0.5 billion increase since June 30, 2002, due primarily to positive investment performance. During the past twelve month period,

- Continued concerns regarding corporate malfeasance weighed on the equity markets globally, coupled with concerns about continued weak economic growth in the United States, Europe, and Japan. Political uncertainty also hampered equity market results as the United States-led war on Iraq and potential terrorist backlash increased market volatility.
- Global equity markets rallied during the second quarter as the war on Iraq appeared to be won, consumers continued to spend, the housing market remained strong, and economic growth accelerated.
- Within this environment, domestic equity markets faltered in the second half of 2002 through the beginning of March 2003, then rallied significantly through June 30 to produce a slightly positive return through June. The S&P 500 Index, an index of domestic large capitalization stocks, returned 0.3% during the one year period while smaller stocks, as measured by the Russell 2000 Index, fell 1.6%.
- Developed international equity markets underperformed their domestic equity counterparts during the one year period, falling 6.1% as measured by the MSCI EAFE (Europe, Australasia, Far East) Index. Emerging markets were the strongest performing equity markets worldwide, advancing 6.9%, as measured by the MSCI Emerging Markets Index.
- Fixed income markets performed well during the twelve month period, benefiting from declining interest rates, returning 10.4%. Corporate bonds rallied strongly in the first half of 2003 as investors sought yield.

Within this environment, the CRIF returned 4.7% during the 12 month period ending June 30, outpacing the 4.2% Index return and ranking in the top third of its public fund peers as measured by the Russell/Mellon Public Fund Universe. Annual results were bolstered by the strong equity rally during the second quarter of 2003, coupled with strong relative performance in domestic

REPORT ON INVESTMENT ACTIVITY (continued)

equity and fixed income. The CRIF also outperformed its peers and the Index over the three and five year period.

The CRIF's domestic equity managers returned a collective 1.3% during the year ended June 30, surpassing the 0.8% Russell 3000 Index return and ranking near the top third of similarly managed funds. The domestic equity allocation benefited from the addition of active management over the last twelve months across large, mid, and small capitalization equity, as these managers outperformed their peers and Index results. Longer term performance was mixed largely due to the Fund's significant index allocation in 2000 through 2002, a time period in which active management outperformed.

The Fund's international equity allocation returned -6.9% during the year ending June 30, trailing its benchmarks. Underperformance was driven by under-representation in developing countries, coupled with lagging active management results. Over the past 12 month period, the Fund has been adjusting its international equity exposure in an effort to better align its risk profile and improve return expectations.

The fixed income portfolio benefited from a Corporate bond rally during the first half of 2003, returning 10.9%, surpassing the Lehman Brothers Aggregate Index by 0.5% and ranking near the average fixed income manager. Longer term performance was mixed.

The Board of Trustees continues to make progress in diversifying the Fund and adjusting its risk and return profile in an effort to deliver sufficient growth and earnings to meet its benefit obligations. Mercer supports the Fund's ongoing efforts to enhance investment results and its continued due diligence activities.

Sincerely,



Stephanie Grieser Braming, CFA
Principal

OUTLINE OF INVESTMENT POLICIES

The Board of Trustees serve as the ultimate fiduciaries of the State of Indiana Public Employees' Retirement Fund (the Fund). The five members are appointed by the governor. One must be a member of the fund with at least 10 years of creditable service. One must be either a member of a collective bargaining unit of state employees or an officer of a local, national or international labor union representing state employees. Not more than three of the trustees may be of the same political affiliation. The board appoints the executive director of the fund for approval by the governor.

Trustees operate under the prudent investor standard in overseeing investment activities, acting "with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims."

PERF was prohibited from investing in equities prior to May 1997. At that time, the Board began re-balancing the portfolio by investing in diversified equity asset classes. As stated in the Notes to the Financial Section, the Consolidated Retirement Investment Fund includes all investments and transactions of the pension funds, except for the PERF Fund members' annuity savings accounts directed outside the guaranteed fund, the real estate investments and two short term investment accounts for building maintenance and checking. The non-pension funds administered by PERF are excluded from the CRIF. A breakdown of each plan's share of the CRIF and the asset allocation of the total portfolio is provided in this section.

The Board's Statement of Investment Policy and corresponding Addenda govern the activities for all assets under the Board's control. The purposes are summarized below:

- Set forth appropriate and prudent investment policies in consideration of the needs of the Fund, legal requirements applicable to the Fund, and to direct investment of the Fund's assets.
- Establish criteria against which the investment managers are to be measured.
- Communicate the investment policies, objectives, guidelines, and performance criteria of the Board to the Staff, Investment Managers, Consultants and all other interested parties.
- Serve as a review document to guide the ongoing oversight of the investment of the Fund.
- Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investment of the Fund solely in the interests of members and Fund beneficiaries.

Maintenance of funding adequate to provide for the payments of the plans' actuarially determined liabilities over time, at a reasonable cost to the members, the employers, and the taxpayers of the State, is of primary consideration. In order to determine the appropriate asset allocation and diversification of the Fund to meet the objectives described above, the Board periodically conducts asset/liability modeling studies.

The investment portfolio includes long-term commitments to the following asset classes: domestic equity, domestic fixed income, and international equity. The international equity allocation started during fiscal year 2001. In addition, the Board established a strategic allocation to alternative investments. Expectations are that this allocation will be funded over time.

The Board employs professional investment managers selected through a thorough manager due diligence search process. This incorporates the State of Indiana's statutory requirements, supported by staff and consultant coordination and analysis. It is the Board's intent that the selection process be open to all qualified organizations wishing to participate. Investment managers are expected to comply with stated investment guidelines detailed in the Statement of Investment Policy. Manager performance is measured against applicable market index results, as well as a comparable peer group of managers.

The Guaranteed Fund is the unique, original self-directed investment option for the Annuity Savings Account program within the PERF plan. It provides a guarantee of the value of an individual's contributions to the Fund and a guarantee of the value of any interest credited on contributions. As set by the PERF Board, the actual investments of the Guaranteed Fund are the same as the general PERF portfolio.

The PERF Board annually establishes the interest crediting rate for the Guaranteed Fund, based on the actuary's reasonable expectation for long term investment performance. That rate provides a stable long-term view of earnings potential for the total Fund. The interest crediting rate for the Guaranteed Fund during the last ten years is included in the Investment Highlights of this section on page 63.

INVESTMENT HIGHLIGHTS

Investment Summary

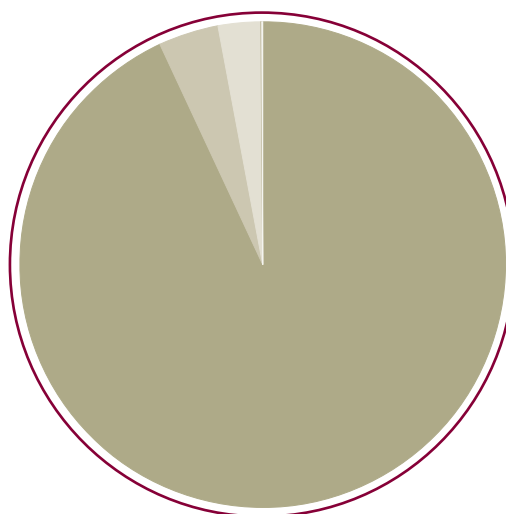
June 30, 2003
(\$ millions)

Consolidated Retirement Investment Fund (CRIF)	\$ 9,704.7
PERF ASA accounts ⁽¹⁾	295.8
Legislators DC accounts ⁽²⁾	4.8
Investment Trust Fund - Pension Relief Fund	421.7
Other Employee Benefit Trust Funds	7.9
Total Investments, Cash and Cash Equivalents ⁽³⁾	10,475.5

⁽¹⁾ Balances directed outside the Guaranteed Fund.

⁽²⁾ Balances directed outside the Legislators CRIF Option.

⁽³⁾ Includes investment income receivable, receivable from investment sales, and investment purchases payable.

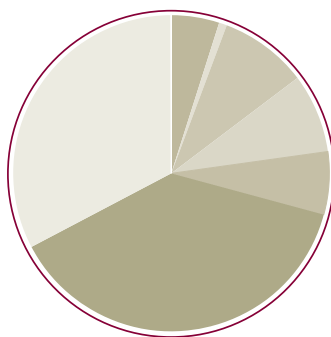


- Consolidated Retirement Investment Fund (CRIF) 93.05%
- Investment Trust Fund - Pension Relief Fund 4.01%
- PERF ASA accounts 2.82%
- Other Employee Benefit Trust Funds 0.08%
- Legislators DC accounts 0.05%

INVESTMENT HIGHLIGHTS *(continued)*

Consolidated Retirement Investment Fund (CRIF) Asset Allocation Summary

(in percent)
June 30, 2003



Total Fixed Income 38.1%	International Equity 9.0%
Large Cap Equity 32.6%	Global Equity 4.9%
Midcap Equity 8.1%	Alternative Assets 0.03%
Small Cap Equity 6.4%	Reallocation Fund 0.8%

Consolidated Retirement Investment Fund (CRIF) Asset Allocation Summary

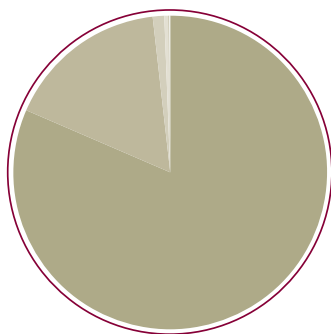
(in percent)
June 30, 2003

	June 2002	June 2003
Total Equities	57.9 %	61.0 %
Total Fixed Income	39.6	38.1
Alternative Investments	2.5	0.0
Reallocation Fund*	0.0	0.8
Total Fund	100.0	100.0

*The Reallocation Fund consists of residual cash within the Fund.

Retirement Plans in the Consolidated Fund (CRIF)

June 30, 2003



Public Employees' Retirement Fund (PERF)	Prosecuting Attorneys' Retirement Fund
1977 Police Officers' and Firefighters' Pension and Disability Fund	Legislators' Retirement System-Defined Contribution Plan
1977 and 1985 Judges' Retirement System	Legislators' Retirement System-Defined Benefits Plan
Excise Police & Conservation Enforcement Officers' Retirement Plan	

Retirement Plans in the Consolidated Fund (CRIF)

June 30, 2003

	Assets (\$ millions)	Percent of Consolidated Fund
Public Employees' Retirement Fund	\$ 7,841.1	80.8 %
1977 Police Officers' and Firefighters' Pension and Disability Fund	1,679.1	17.3
1977 and 1985 Judges' Retirement System	123.2	1.3
Excise Police & Conservation Enforcement Officers' Retirement Plan	36.5	0.4
Legislators' Retirement System-Defined Contribution Plan	4.2	0.0
Legislators' Retirement System-Defined Benefit Plan	8.1	0.1
Prosecuting Attorneys' Retirement Fund	12.5	0.1
Total Consolidated Fund ⁽¹⁾	9,704.7	100.0

⁽¹⁾ Due to rounding, may not sum correctly.

INVESTMENT HIGHLIGHTS *(continued)***Comparative Investment Results
For Periods Ended June 30, 2003**
(Percent Return)

	1 YR	3 YR	5 YR
Total CRIF Fund	4.7 %	(0.8) %	3.0 %
vs. Russell Mellon Public Funds Universe median*	3.5	(2.7)	2.8
Target Reference Index**	4.2	(2.4)	2.2
Total CRIF Domestic Equity	1.3	(8.3)	(0.1)
vs. Mercer Equity Universe median	(0.3)	(4.3)	2.5
Russell 3000 Index	0.8	(10.5)	(1.1)
Total CRIF Global Equity	(9.4)	NA	NA
vs. Mercer Global Equity Universe median	(2.8)	(11.6)	0.1
MSCI ACWI Free Index	(1.6)	(12.4)	(2.5)
Total CRIF International Equity	(6.9)	NA	NA
vs. Mercer International Equity Universe median	(6.0)	(12.7)	(1.9)
ACWI Ex-US Index	(4.2)	(12.5)	(2.8)
MSCI EAFE Index	(6.1)	(13.2)	(3.7)
Total CRIF Fixed Income	10.9	10.1	7.6
vs. Mercer Core Investment Grade Universe median	10.8	10.3	7.7
LB Aggregate Index	10.4	10.1	7.5

CRIF= Consolidated Retirement Investment Fund

* Universe of Public Funds

** Composed of passive indices for each asset class held at the target allocation:
40% S&P 500 / 15% Russell 2000 / 10% MSCI ACWI ex-US / 35% LB Aggregate**Ten-Year Total Pension
Investment Rates of Return**
(dollars in millions)

	Market Value	Actuarial Basis	Rate of Return	Actuarial Assumed Rate
2003	\$ 9,704.1	NA	4.70	7.25 %
2002	9,627.8	NA	(4.51) %	7.25
2001	9,883.0	5.77 %	(2.51)	7.25
2000	9,315.1	8.53	6.74	7.25
1999	8,492.6	9.52	11.25	7.25
1998	6,346.2	9.34	13.41	7.25
1997	5,830.5	8.57	8.30	7.25
1996	5,513.9	7.96	4.68	7.25
1995	4,858.5	8.61	12.56	7.00
1994	4,830.1	9.32	(0.97)	7.50

2003 Investment Summary

(dollars in thousands)

	Beginning Account Balance	Net Contributions	Income & Capital Gains	Ending Account Balance	Percentage of Total Fair Value
Domestic Equity	\$ 4,333,318	\$ 79,300	\$ 158,982	\$ 4,571,600	47.12 %
Global Equity	60,386	1,636	412,678	474,700	4.89
International Equity	943,553	23,494	(90,747)	876,300	9.03
Total Equity	5,337,257	104,431	480,912	5,922,600	61.05
Fixed Income*	3,888,617	(7,000)	(102,817)	3,778,800	38.95
Total CRIF**	9,225,874	97,431	378,095	9,701,400	100.00

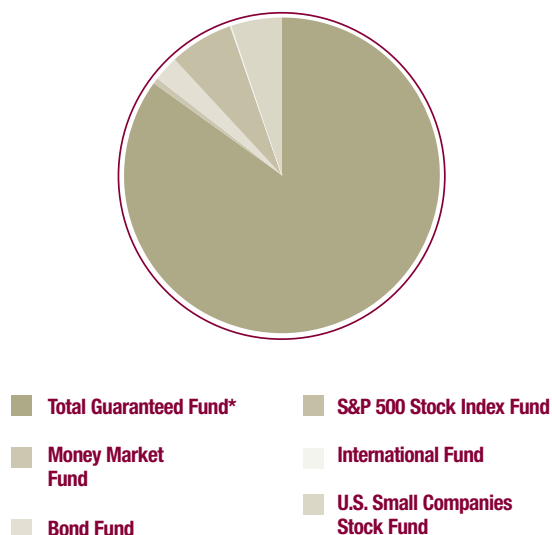
* Includes Reallocation Account for cash flow and allocation purposes.

** Numbers may not add due to rounding.

INVESTMENT HIGHLIGHTS *(continued)*

PERF Annuity Savings Account Investment Highlights by Dollar Amount

June 30, 2003



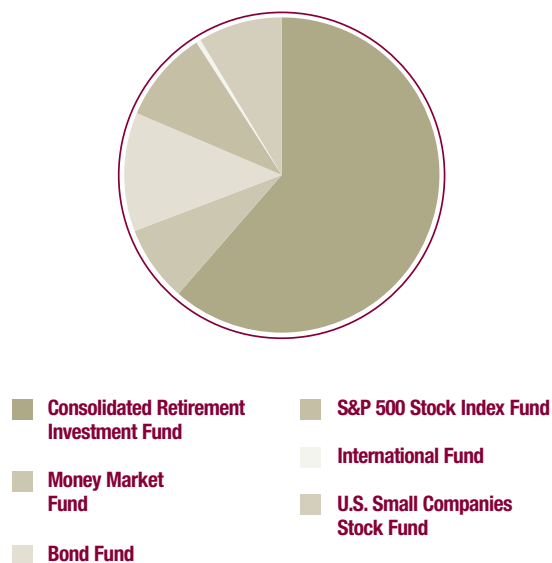
Investment Highlights by Dollar Amount

	Assets (\$ millions)	Percent of Self-Directed Investments
Total Guaranteed Fund	\$ 1,675.8	84.7 %
Money Market Fund	12.2	0.6
Bond Fund	48.4	2.4
S&P 500 Stock Index Fund	132.6	6.7
International Fund	1.3	0.1
U.S. Small Companies Stock Fund	108.3	5.5
Total Assets¹	1,978.6	100.0

¹Due to rounding, may not sum correctly.

Legislators' Retirement Defined Contribution Plan Investment Highlights by Dollar Amount

June 30, 2003



Investment Highlights by Dollar Amount

	Assets (thousands)	Percent of Self-Directed Investments
Consolidated Retirement Investment Fund	\$ 7,673	61.3 %
Money Market Fund	978	7.8
Bond Fund	1,527	12.2
S&P 500 Stock Index Fund	1,192	9.5
International Fund	58	0.5
U.S. Small Companies Stock Fund	1,081	8.6
Total Assets¹	12,509	100.0

¹Due to rounding, may not sum correctly.

INVESTMENT HIGHLIGHTS *(continued)*

Self-Directed Investment Options PERF Annuity Savings Account Legislators' Defined Contribution Plan

Annualized Rate of Return by Investment Option

For Periods Ended June 30, 2003

	1 YR	3 YRS	5 YRS	SINCE INCEPTION
Consolidated Retirement Investment Fund ¹	4.7 %	(0.8) %	NA	(0.8) %
Money Market Fund	1.6	3.3	4.1 %	5.3
Bond Fund	10.5	10.2	8.0	8.7
S&P 500 Stock Index Fund	0.3	11.2	(1.7)	(1.7)
U.S. Small Companies Stock Fund	1.3	12.9	9.1	9.1
International Equity Index Fund ²	(5.9)	NA	NA	(6.3)

¹ The Consolidated Retirement Investment option did not become available to members (Legislators' Defined Contribution Plan) until July 1, 2000.

² The International Equity Index Fund did not become available to PERF members until January 1, 2002.

PERF Guaranteed Fund

Interest Crediting Rates for Past 10 Years

Year	Interest Crediting Rate
2003*	8.25/7.75%
2002	8.25
2001	8.25
2000	8.25
1999	8.25
1998	8.25
1997	9.00
1996	8.40
1995	6.75
1994	8.00

* For the fiscal year ended June 30, 2003, the interest crediting rate for the Guaranteed Fund was credited based on an annual rate of 8.25% for the first quarter and 7.75% for the remaining three quarters.

LIST OF LARGEST ASSETS HELD

Largest Equity Holdings

Description	Shares	Market Value
Microsoft Corp.	2,965,748	\$ 76,041,766
General Elec Co.	2,370,342	67,981,406
Pfizer Inc.	1,884,317	64,349,414
Exxon Mobil Corp.	1,693,408	60,810,281
Wal-Mart Stores Inc.	1,128,062	60,543,113
Citigroup Inc.	1,323,078	56,627,754
Merck & Co Inc.	889,860	50,996,109
Intel Corp.	2,415,246	50,261,277
American Intl Group.	805,576	44,451,707
Cisco Sys Inc.	2,481,966	41,672,203
International Bus Ma.	501,955	41,411,316
Johnson & Johnson.	782,593	40,460,070
Verizon Communication.	905,535	35,723,375
Ebay Inc.	652,173	33,912,984

Largest Bond Holdings

Description	Coupon Rate	Maturity Date	Par	Market Value
GNMA TBA.....	6.50 %	11/15/2028	\$ 82,200	\$ 86,310,000
US Treasury Note (TIPS)	3.88	04/15/2029	28,000	39,947,600
US Treasury Note (TIPS)	3.00	07/15/2012	32,500	36,620,744
US Treasury Note (TIPS)	3.63	04/15/2028	24,700	34,220,116
US Treasury Note (TIPS)	3.63	01/15/2008	25,500	32,549,448
US Treasury Note (TIPS)	3.38	01/15/2007	24,000	30,576,626
US Treasury Note (TIPS)	3.88	01/15/2009	23,500	30,166,478
FNMA TBA.....	6.00	11/15/2027	24,900	25,872,594
FNMA TBA.....	5.50	01/15/2013	23,100	23,987,964
US Treasury Note (TIPS)	4.25	01/15/2010	17,300	22,243,802

A complete list of portfolio holdings is available upon request.

SCHEDULE OF COMMISSION FEES

Top 10 Brokers' Total Commission Fees	
Broker	Commission Fee
Lehman Brothers Inc	\$ 1,321,632
Banc of America Securities	845,919
Goldman Sachs	807,488
Bear Stearns	740,303
Morgan Stanley	691,707
Investment Technology Group	553,530
Citi Group	549,065
Credit Suisse First Boston	517,472
B-Trade Service LLC	489,052
Bridge Trading Co.	445,575
Total of Top Ten Commission Fees	6,961,742
Other Brokers	6,513,459
Total	13,475,200

INVESTMENT PROFESSIONALS

CUSTODIAN

JP Morgan Chase
4 Chase MetroTech Center, 18th Floor
Brooklyn, NY 11245

CONSULTANTS

Burnley Associates
300 East 5th Avenue, Suite 470
Naperville, IL 60563

Mercer Investment Consulting, Inc.
10 South Wacker Drive, Suite 1500
Chicago, IL 60606-7485

Strategic Investment Solutions
44 Montgomery Street, Suite 1610
San Francisco, CA 94104

Wilshire Associates
210 Sixth Avenue, Suite 3720
Pittsburgh, PA 15222

CRIF

Domestic Equity

Barclays Global Investors
Large Cap Equity - Small/Mid Cap Equity
45 Fremont Street
San Francisco, CA 94105

Brandes Investment Partners, L.P.
Mid Cap Equity
11988 El Camino Real, Suite 500
P.O. Box 919048
San Diego, CA 92191-9048

Brown Capital Management
Small/Mid Cap Equity
1201 N. Calvert Street
Baltimore, MD 21202

Numeric Investors, L.P.
Small Cap Equity
One Memorial Drive, 9th Floor
Cambridge, MA 02142

Osprey Partners Invst. Mgt, LLC
Large Cap Equity - Small Cap Equity
Shrewsbury Executive Center II
1040 Broad Street
Shrewsbury, NJ 07702

Merrill-Lynch Investment Managers
Large Cap Equity
800 Scudders Mill Road
Plainsboro, NJ 08536

Sands Capital Management, Inc.
Large Cap Equity
1001 19th Street North, Suite 1450
Arlington, VA 22209

TimesSquare Capital Management
Small Cap Equity
Four Times Square, 25th Floor
New York, NY 10036-9998

Turner Investment Partners
Large Cap Equity
1235 Westlakes Drive, Suite 350
Berwyn, PA 19312

Strong Capital Management
Mid Cap Equity
450 East 96th Street, Suite 210
Indianapolis, IN 46240

Global Equity

Brandes Investment Partners, L.P.
11988 El Camino Real, Suite 500
P.O. Box 919048
San Diego, CA 92191-9048

Invesco
1360 Peachtree Street, N.E., Suite 100
One Midtown Plaza
Atlanta, GA 30309

International Equity

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105

Capital Guardian Trust Company
1 Market Stewart Tower, Suite 1800
San Francisco, CA 94105-1409

GE Asset Management
3001 Summer Street
Stamford, CT 06912

Fixed Income

BlackRock Financial Management, Inc.
Fixed Income Core Opportunistic
40 East 52nd Street, 6th Floor
New York, NY 10022

Hughes Capital Management, Inc.
Fixed Income Core Plus
315 Cameron Street
Alexandria, VA 22314

Lincoln Capital Management Company, LLC
Fixed Income
200 South Wacker Drive
Chicago, IL 60606

Northern Trust Global Investments
Fixed Income - Fixed Income Tips
50 South LaSalle Street
M4 Quant Management
Chicago, IL 60675

Reams Asset Management Co., LLC
Fixed Income Core Plus
227 Washington Street
P.O. Box 727
Columbus, IN 47201-0727

Seix Investment Advisors, Inc.
Fixed Income Core Plus
300 Tice Boulevard
Woodcliff Lake, NJ 07677-7633

Taplin, Canida & Habacht
Fixed Income Core Plus
1001 Brickell Bay Drive, Suite 2100
Miami, FL 33131

Western Asset Global Management, Inc.
Fixed Income Core Opportunistic
117 East Colorado Boulevard
Pasadena, CA 91105

Alternative Investments

Lindsay Goldberg & Bessemer L.P.
630 Fifth Avenue, 30th Floor
New York, NY 10111

House Investments L.P.
10401 North Meridian Street, Suite 275
Indianapolis, IN 46290-1090

CSFB Private Equity Group
Indiana Future Fund I
11 Madison Avenue, 16th Floor
New York, NY 10010

DEFINED CONTRIBUTION PLAN

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105

Dimensional Fund Advisors, Inc.
1299 Ocean Avenue
Santa Monica, CA 90401

J.P. Morgan Chase
4 Chase Mctotch Center, 18th Floor
Brooklyn, NY 11248

National City Bank
1900 East 9th Street
Cleveland, OH 44114

Northern Trust Global Investments
50 South LaSalle Street
M4 Quant Management
Chicago, IL 60675

POLICE AND FIRE PENSION RELIEF FUND

Barclays Global Investors
45 Fremont Street
San Francisco, CA 94105